MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BAC 4644 – ADVANCED TAXATION

(All sections / Groups)

6 MARCH 2020
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

a) At the age of 65, Mr. Benjamin Hurst, who was a Malaysian resident, suffered a sudden and massive heart attack while dining at the family home in Cristal Serin, Cyberjaya. He was hospitalized and finally succumbed to his ailment at 11.30 am on 31st August 2019.

Mr. Hurst left behind a wife and three children. His wife, Dr. Annabel Hurst was an ophthalmologist (eye specialist) in Gleneagles Kuala Lumpur. Their first child was a 25-year-old lecturer, who was studying Ph.D on part-time basis. Their second child was 21 years old and married. She was a full-time medical student in University Malaya. Their youngest child, a 19-year-old boy, had just started his first year as an accounting undergraduate in Multimedia University.

Prior his death, Mr. Hurst owned two businesses whereby one operated in Malaysia while another was in Singapore. The information related to these businesses are as follows:

Business	
1. Bubblé Tee Shoppé, Damansara Utama, Selangor.	Adjusted income RM134,100 Capital allowance RM 4,400 Balancing charge RM 2,600
2. Hoity Toity Snack Mart Upper Jurong Road, Singapore.	Adjusted income RM101,000

Besides his businesses, Mr. Hurst had gotten the following income from his multiple investments.

Investment	**RM**
Interest from fixed deposit account in Maybank Bhd. (received on 31st December 2019).	5,750
Fixed interest from savings certificates issued by the Government of Malaysia (received on 30th June 2019).	1,120
Dividend received from exempt income account from Alliance Unit Trust Bhd. (received on 31st August 2019).	1,330
Single-tier dividend received from Dragon Fortune Bhd. (received on 31st December 2019).	880
Monthly rental of fully-furnished apartment in Damansara Avenue	5,375

Before he passed away, Mr. Hurst had sold his land in Ipoh for RM950,000. The land had been in his possession for the past fifteen years.

In his will, Mr. Hurst appointed his solicitor to be the executor of his estate with an annual remuneration of RM60,000. The will also state that Dr Annabel is to be paid an annuity of RM36,000 per year.

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Mr. Hurst, when he was still alive, has paid for the following expenses during the year.

- Full medical examination package costing RM1,000 for Mr. Hurst.
- RM1,500 deposited to Skim Simpanan Pendidikan Nasional (SSPN) for the third child.
- Life insurance premium for Mr. Hurst totalling RM6,500.
- Medical insurance premium of RM4,000 for Mr. Hurst and Dr. Annabel.
- Purchase of tablet and smartphone for children totalling RM10,750.

Required:
Calculate the income tax payable for Mr. Hurst and his estate for the year of assessment 2019.

Note: Assume that Dr. Annabel opted for separate assessment and child relief is to be claimed by Mr. Hurst.

(12 marks)

b) Tuan Haji Abdul is a millionaire who made up his fortune through successful business ventures and savvy investments. Now, he is planning to enjoy a quiet retirement life in his rural cottage with his wife.

Based on the legal advice of his personal lawyer, he plans to divest his properties to his four children before December 2020. His plan is as follows:

i. Adam, who is Tuan Haji Abdul's firstborn child, is to receive three blocks of shop houses in Kajang along with the rental derived from the property. Adam was born in 1987 and he is unmarried.

ii. Bahiyah, as the second child, is to receive an investment portfolio of shares listed in Bursa Malaysia as well as bond certificates. She was born in 1993 and is in the midst of divorce. Worried on the possibility that the investment portfolio may be claimed by Bahiyah's soon-to-be ex-husband, Tuan Haji Abdul exerts his right to revoke the settlement at any time he deems fit. Once revoked, the portfolio and all its income will belong to Tuan Haji Abdul until his death.

iii. As the third child who is 25 years old, Camelia is to receive a five-storey office building in Shah Alam. She is to manage the rental and any subsequent details in regard to the property. In consideration of his daughter's fragile health, Tuan Haji Abdul insists that should Camelia pass away before him, the entire property will revert back to him.

iv. The youngest child, 22-year-old Daniel is to receive two rental houses and treasury shares. In view of Daniel's age, Tuan Haji Abdul wishes for him to focus on his study while learning the basics of investment. Therefore, Tuan Haji Abdul will be the one to manage the assets on behalf of his son and maintain his right to make use the income derived from the assets for his own personal purposes.

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After drafting this plan, Tuan Haji Abdul decides to seek further professional opinion. As a tax consultant, you are tasked by your superior to explain to Tuan Haji Abdul on the tax implication of his plan.

Required:
Explain, with reasons and relevant Sections, as to whom will be assessable on the income arising from the above transferred assets.

(8 marks)

[Total: 20 marks]

QUESTION 2

JLo Holdings Sdn. Bhd. ('the company') is a Malaysian incorporated resident investment holding company (unlisted) with a paid-up capital of RM7 million. Its main activity is making of investments. The company has produced the following results for the financial year ended 31 December 2019.

Income	**Notes**	**RM**	**RM**
Dividend –ABC Bhd. (single-tier; net of tax of 24%)			102,600
Interest	1		120,000
Rent (a unit of shophouse)			86,000
Gain of sales from shares	2		80,000
Ad hoc fees assisting property's sale			36,000
Commission fees on investment transactions			44,000
			468,600
Less: **Expenses**			
Directors' remuneration		61,560	
Salaries and allowances		158,800	
Interest expense	3	5,000	
Secretarial fees		4,500	
Audit fees		12,000	
Postage and stationery		1,000	
Quit rent and assessment (for shophouse)		3,880	
Repair and maintenance (for shophouse)		14,000	
Traveling		4,000	
Approved donation		3,000	267,740
Net profit			**200,860**

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Notes:

		RM
1	Interest income was derived from:	
	An overseas subsidiary	30,000
	Fixed deposit from RHB Bank Bhd.	90,000
		120,000
2	Gain of sales from shares	
	Sale proceeds	100,000
	Cost of shares	(20,000)
		80,000
3	Interest expense was incurred on loan for investment on shophouse.	

Required:
Calculate the chargeable income and tax payable for JLo Holdings Sdn. Bhd. for the year of assessment 2019.The income tax rate for year 2019 is 24%.

Note: Show all workings especially the fraction of permitted expenses. Round up all figures.

[Total: 20 marks]

QUESTION 3

a) Weibo Sdn. Bhd. (Weibo) has been manufacturing taxable goods for many years and is registered for sales tax purposes. Weibo closes its accounts annually on 31 December. Weibo wholly owns a subsidiary company, Weiwei Sdn. Bhd. (Weiwei).

In 2019, Weibo sold taxable goods to Weiwei for RM173,000. Details relating to sales made to normal customers for the same taxable goods are as follows:

	RM'000
Total manufacturing costs	70
General selling and marketing expense	30
Profit margin	79

Date goods delivered	29 December 2018
Date invoice issued	20 January 2019
Date full payment received	15 March 2019

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Required:

(i) Determine the sale value and compute the sales tax due on Weibo's sales to Weiwei. The sales tax rate applicable to the taxable goods is 10%. *(Show all workings).*

(4 marks)

(ii) State in which taxable period the sales to Weiwei should be recorded.

(1 mark)

(iii) Determine by when Weibo should pay the sales tax to the Royal Malaysian Customs Department (RMC). Determine the amount of penalty Weibo should pay to RMC if Weibo remit the sale tax to the authority on 1.6.2019.

(3 marks)

b) Bianli Sdn. Bhd. (BSB), is a registered manufacturer for sales tax purposes. It imported raw materials in order to produce taxable goods in Malaysia. The purchase price of the raw materials was RM400,000; insurance was RM1,000; delivery charges RM6,000 and import duty at the rate of 25%. The sales tax rate applies to the taxable goods was 10%.

In November 2019, BSB donated some goods costing RM3,000 and worth market value of RM4,000 to Agape Children Home (an approved charity).

Required:

(i) Determine the sales value and sales tax payable on import for BSB. *(Show all workings).* **(3 marks)**

(ii) State, whether sales tax is applicable to donation made to Agape Children Home. If yes, determine the amount of sales tax payable.

(2 marks)

c) Marvin REIT (Marvin), is a real estate investment trust (REIT) listed on Bursa Malaysia. Marvin has a portfolio of commercial properties in Selangor and Australia.

The details for Marvin's financial information for the year ended 31 December 2019, are as follows:

Income	**RM'000**
Gross rental income from letting of property	7,000
Interest income	500
Dividend income remitted from Singapore	300
Expenditure	
Revenue expense for letting of property	1,000
Approved donation	10

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Peter, the chief of finance division of Marvin REIT, plans to distribute enough profits to the unit holders in order to qualify from income tax exemption.

Required:
Compute the amount of total income that Marvin is required to distribute to its unit holders for the year of assessment 2019 in order to qualify for the income tax exemption available for REITs.

(7 marks)

[Total: 20 marks]

QUESTION 4

a) Orangee Sdn. Bhd. (OSB) is a company resident in Malaysia which manufactures wooden solid furniture since 2010. The company has a paid up capital of RM1.8 million. OSB plans to expand its business by undertaking a retail textile business which incurred an adjusted loss and capital allowance of RM36,000 and RM40,000 respectively for the year of assessment 2019. The manufacturing business information for the year ended 31 December 2019 is as follows:

	RM	
Adjusted income from manufacturing business	420,000	Note 1
Interest income from investment	85,000	
Donations	50,000	Note 2
Unabsorbed manufacturing business loss	63,000	Note 3
Capital allowance	55,000	

Note 1: The amount is after adjusting for any tax incentive.
Note 2: Cash donations to an approved institution.
Note 3: Unabsorbed manufacturing business loss for the year of assessment 2018.

Required:
As a tax consultant, advise OSB either to proceed with decision to expand its business or not by considering the business loss and capital allowance. Support your answer with calculation.

(15 marks)

b) Explain the advantage for business income as compared to investment income.

(5 marks)

[Total: 20 marks]

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QUESTION 5

Berjaya Grocer Cooperative Society (BGC) is local consumer co-operatives grocery stores since 2010. Its objective is to support its members with information and education of store management and training. BGC closes its accounts to 31 December each year and the accounts for the year ended 31 December 2019 showed the following details:

	RM	RM
Revenue	660,000	
Add: Other income		
Members' entrance fee	220,000	
Members' subscription fee	340,000	
Rental income (letting out shop lots to non-member)	54,000	
Interest from investment	21,400	1,295,400
Less:		
Remuneration	315,000	
Professional fee	21,400	
Depreciation	49,700	
Repairs and maintenance	36,800	
Office rent	30,000	
Approved donation	9,500	
Utilities	1,800	
Travelling	10,680	
Interest on members' savings and loans	27,500	502,380
Audited net profit before taxation		**793,020**
Less:		
Dividends paid to members	55,000	
Contribution to co-operative education trust fund	35,400	
Contribution to co-operative development fund	28,000	118,400
Unappropriated profit for the year		**674,620**

Other information:

1. BGC has an unabsorbed loss of RM29,000 and capital allowance of RM35,000 brought forward from the year of assessment 2018.

   BGC is also eligible to claim a capital allowance of RM52,000 for the year of assessment 2019.

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2. The members' fund as at 1 January 2019 was computed as follows:

	RM
Paid up capital	500,000
Bonus shares (issued out of revaluation of fixed assets)	46,000
Share premium account	130,400
Statutory reserve	42,200
Unappropriated profit	440,600
	1,159,200

Required:

(i) Starting with 'profit before taxation', compute the chargeable income of Berjaya Grocer Cooperative Society for the year of assessment 2019.

(11 marks)

(ii) Based on your answer in (i), explain either the income of Berjaya Grocer Cooperative Society will be taxable for the year of assessment 2019.

(2 marks)

(iii) Explain in what circumstances cooperative society to be exempted from income tax under the Income Tax Act 1967 (amended).

(3 marks)

(iv) Discuss the tax treatment of dividend and interest income paid by cooperative society to its members.

(4 marks)

[Total: 20 marks]

End of Question.

APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

1. Income tax rates for resident individuals for the Year of Assessment (YA) 2019.

Chargeable Income (RM)	Calculations (RM)	Tax Rate %	Tax Payable (RM)
0 - 5,000	On the first 2,500 Next 2,500	0 0	0 0
5,000 – 10,000	On the first 5,000 Next 5,000	 1	0 50
10,000 - 20,000	On the first 10,000 Next 10,000	 1	50 100
20,000 - 35,000	On the first 20,000 Next 15,000	 3	150 450
35,000 - 50,000	On the first 35,000 Next 15,000	 8	600 1,200
50,000 - 70,000	On the first 50,000 Next 20,000	 14	1,800 2,800
70,000 - 100,000	On the first 70,000 Next 30,000	 21	4,600 6,300
100,000 - 150,000	On the first 100,000 Next 50,000	 24	10,900 12,000
150,000 - 250,000	On the first 150,000 Next 100,000	 24	22,900 24,000
250,000 - 400,000	On the first 250,000 Next 150,000	 24.5	46,900 36,750
400,000 - 600,000	On the first 400,000 Next 200,000	 25	83,650 50,000
600,000 – 1,000,000	On the first 600,000 Next 400,000	 26	133,650 104,000
Exceeding 1,000,000	On the first 1,000,000 Next ringgit	 28	237,650 .....

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2. Reliefs for the Year of Assessment (YA) 2019.

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	3,500
Medical expenses for parents	5,000
Parental care	1,500 per parent
Medical expenses for serious diseases (including medical examination expenses up to RM500)	6,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten	1,000

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